

INTRODUCTION

Correctional Industries is a unique blend of business and government, using private industry tools and techniques to provide job training and job skills to incarcerated offenders. Correctional Industries is a program within the Department of Corrections, Office of Correctional Operations and operates 34 state-owned businesses and recently supported nine private sector companies within state correctional facilities.

Correctional Industries manufactures multiple product lines and provides a variety of services. Operations are supported by sales of goods and services to public agencies and nonprofit organizations. The sale of Class II goods and services funds the operation of Correctional Industries and drives offender jobs. Class II offender training programs are closely patterned after private sector industries with the objective to reduce public costs rather than make a profit.

PAYING THEIR WAY

Work is an important element in managing a safe, efficient correctional system. Class II offender training programs offers multiple public benefits:

1. Make offenders accountable through payroll deductions including:
 - Crime victims compensation
 - Family support
 - Child support
 - Court-ordered restitution
 - Legal financial obligations
 - Court costs
 - Costs of incarceration, and
 - Mandatory savings program.
2. Enable incarcerated offenders to develop marketable job skills
3. Reduce idleness and provide a tool for the management of offenders,
4. Instill and promote a positive work ethic,
5. Provide lower priced goods and services to public agencies and nonprofit organizations, and
6. Lower criminal justice costs and reduced recidivism.

GOOD BUSINESS, GOOD GOVERNMENT

Ninety-seven percent (97%) of all Washington State offenders are released back into the community. Offenders released into our communities must be able to secure legitimate employment in order to support their family and become contributing members of their communities. Research shows that offenders that are released with CI work experience are less likely to commit new crimes and return to prison within five years. Correctional Industries plays a critical role in breaking the cycle of recidivism.

The sales of Correctional Industries goods and services lower the operating costs of Washington State's criminal justice system and give offenders a chance to change their lives, forever.

EXECUTIVE SUMMARY

Correctional Industries (CI) is a program within the Department of Corrections, Office of Correctional Operations. RCW's 9.96A.010 and 72.09.010 established the legislative intent and RCW 72.09.100 provides the authority to create and operate various classes of offender work programs.

It is the Legislature's intention that the program reduces recidivism by providing offenders with job skills, job training, and an improved positive work ethic prior to their release while saving taxpayers money through production of goods and services.

Class I Free Venture Industries

On May 13, 2004, the Supreme Court of Washington ruled the Class I program violated the Washington Constitution, Article II, section 29 in the case of Washington Water Jet Workers Association, et al vs. Howard Yarbrough et al. This decision was upheld on August 19, 2004 and the Court issued an order denying the Department of Corrections and MicroJet's Motions for Reconsideration. This decision affects nine private companies and approximately 300 offender workers statewide. The phase-out plan is in the implementation process. CI is in the process of identifying expansion opportunities to create Class II offender jobs to replace the Class I jobs lost. (See page 12)

Class II Tax Reduction Industries

Class II industries are state-owned and operated enterprises. There are 34 businesses operating at 12 sites with 1,400 offenders working in the program. Goods and services produced by Class II industries may be sold to public agencies, nonprofit organizations, and to private contractors when the goods purchased will be ultimately used by a public agency or a nonprofit organization.

Class II tax reduction industries saved the State of Washington \$7.2 million during fiscal year 2003 for the cost of goods and services to public agencies. However, the Class II market share for fiscal year 2003 was only 0.07% based upon CI total sales and sales data provided by the Washington State Department of Revenue.

In 2004, 2SSB 6489 set six-year phased-in offender worker targets for offenders working in Class I and II Correctional Industries work programs. The offender worker targets are effective June 30, 2005 and end June 30, 2010. The worker targets are based on the number of Class I and Class II offender jobs as of June 30, 2003 and are subject to the availability of program funds.

Training offenders in community values, including job skills, job training, work ethic, and holding offenders responsible and accountable is an ongoing process. CI programs are a essential component for successfully transitioning offenders from prison to the community. CI staff are committed to creating, maintaining, and expanding offender worker programs that develop marketable skills, instill and promote a positive work ethic, and reduce recidivism.

EXECUTIVE SUMMARY

Working with organized labor, CI will concentrate on the development of pre-apprenticeship programs within existing operations. In addition, CI will develop a transition plan that includes Class II operations in minimum facilities. This helps to ensure offenders continue to develop and use job skills gained while incarcerated at higher custody levels

Deductions from offender wages and gratuities are deposited in various funds to contribute to crime victims, offset the cost of incarceration, pay family support, and pay legal financial obligations ordered by the court.

The Challenge

Correctional Industries operates in a complex, multi-dimensional environment. By statute, CI is limited to marketing products and services to public agencies and nonprofit organizations. Challenges to be addressed in the next biennium include:

- Implement the Class I offender program phase-out plan.
- Balance the expansion of meaningful offender job training and, at the same time limit the impact on Washington State private business and labor.
- Continue the use of Cost of Incarceration funds deducted from offender accounts to finance the maintenance and expansion of offender jobs.
- Continue to upgrade and replace systems and equipment in the Class II manufacturing operations in order to provide timely and high quality products to our customers.
- Increase the sales of Class II goods and services to public agencies which provide cost savings and multiple public benefits.

To address these challenges, CI will continue to develop partnerships with labor and business in an effort to limit the impact on the private sector yet meet CI's legal obligations. Current efforts are underway to expand pre-apprenticeship programs with labor.

EXECUTIVE SUMMARY

Maintain and expand Class II offender worker programs with limited appropriations

Goals for the next biennium:

- Meet sales of at least 1% of total goods and services spent by institutions of higher education in accordance with the provisions of SB 6489, passed during the 2004 Legislative Session.
- Meet offender job targets set by the Legislature based upon the availability of funding in accordance with the provisions of SB 6489.
- Continue to improve customer service through high quality products and timely deliveries.
- Identify emerging businesses as potential Class II business opportunities, including out of state markets for K-12 classroom furnishings and other products.
- Complete expansion at the Airway Heights Corrections Center Class II Food Factory and the CI Warehouse Office Complex in Tumwater.

Correctional Industries continually evaluates its performance measures for the Fiscal Year 2005, and the 2005-2007 biennium by offender jobs and sales growth. In the biennia, CI strives towards:

1. Creating 200 additional Class II offender worker jobs per year in Fiscal Year 2005, 2006 and 2007.
2. Produce approximately \$88,100,000 in sales of Class II goods and services
3. Maintain a break even or one-half of one percent operating income
4. Provide annual cost avoidance savings of at least \$7.2 Million from the cost of goods and services to public agencies.

SERVICES PROVIDED

Correctional Industries is charged with developing and implementing programs designed to offer offenders employment, work experience, and training. Offenders learn skills, attitudes, expectations, and a commitment to quality in environments that closely resemble working conditions of businesses within the community. Class II programs provide value to governmental and nonprofit customers by offering high quality competitively priced goods and services.

As a customer, the Department of Corrections depends on CI to enhance overall operations by providing quality services and products at a low cost, reducing offender idleness, and encouraging positive behavior in offenders. The general public benefits from operating efficiencies and deductions from offender gratuities that offset the cost of incarceration, repay debts, make contributions to crime victim funds, and help reduce recidivism.

In addition to providing more than 1,700 offender positions in Fiscal Year 2004, CI sales of goods and services saved tax-supported agencies more than \$7.2 Million. The results were accomplished by Class II operations without significantly impacting in-state business and labor.

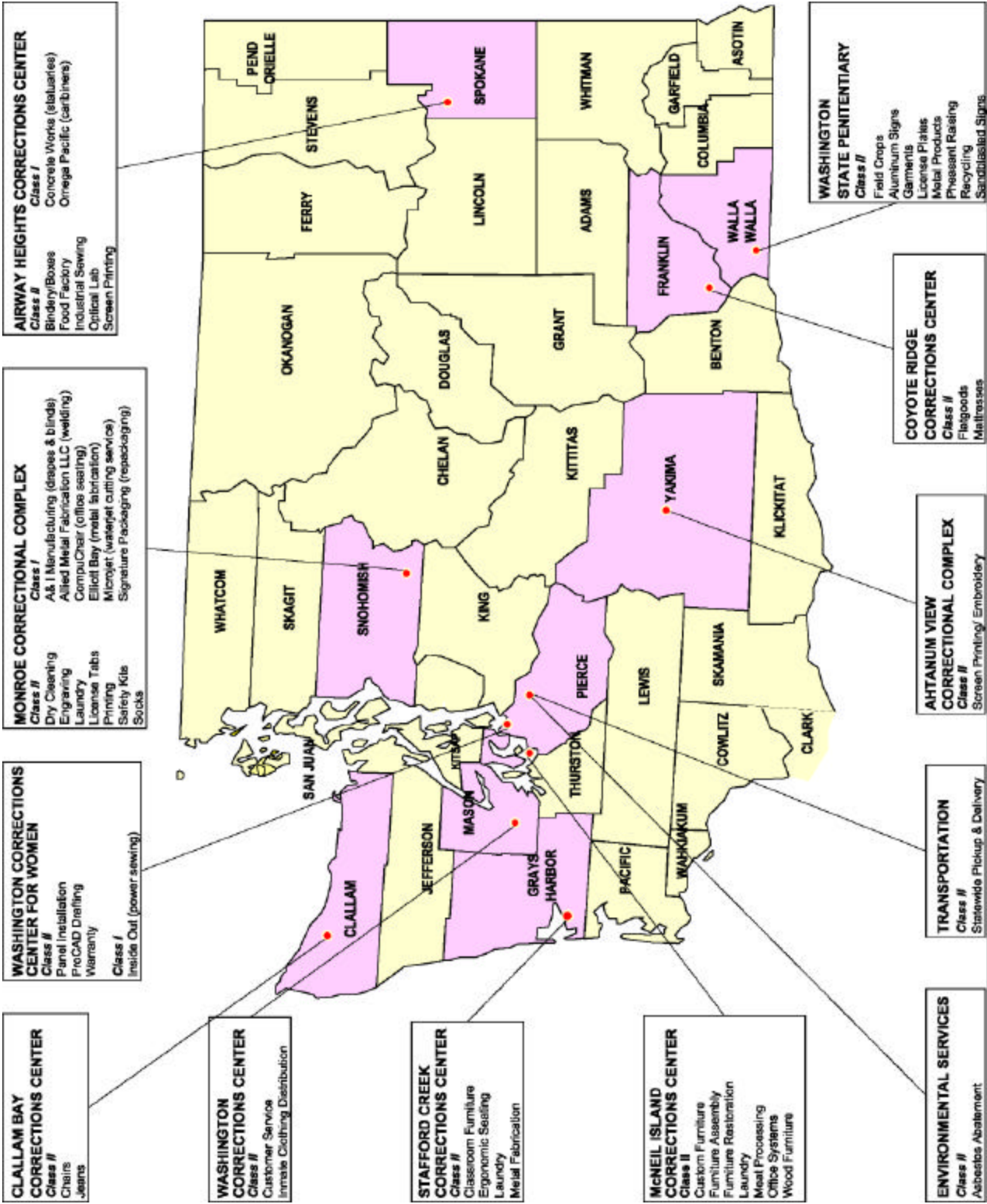
Correctional Industries oversees the daily activities of:

- **Class I:** The Private Sector Partnership Program placed private employers within correctional facilities. These private companies employed offenders at wage rates comparable to those offered in the community. The companies provided their own management, on-site supervision, on-the-job-training, capital equipment, and operated inside an adult correctional facility as they would on the outside. Class I administrative staff and program costs were supported through cost of incarceration funds. CI is in the implementation process for phasing out Class I jobs, per the Supreme Court's opinion issued May 13, 2004, which found the Class I program violated the Washington Constitution, Article II, section 29.
- **Class II:** Tax reduction industries are manufacturing and service operations managed directly by CI personnel. Offenders are paid gratuities ranging from \$0.35 to \$1.10 per hour and sales are restricted to state agencies, other tax-supported entities, and nonprofit organizations. Proceeds from these sales support ongoing operations through the CI revolving fund and cover most operating expenses. Capital construction and specific capital equipment expenses are financed with appropriated funds and cost of incarceration funds.

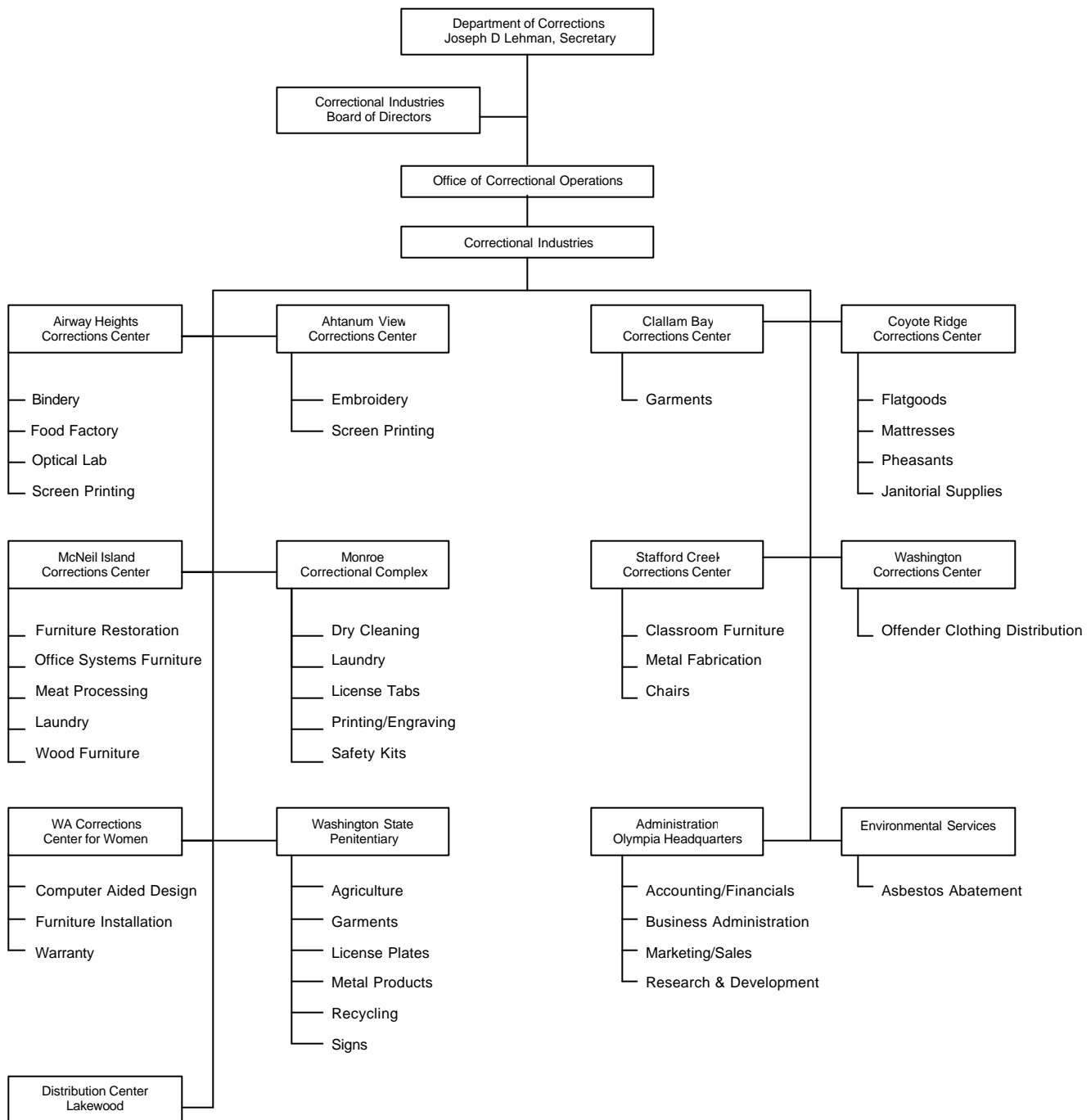
The map on page 6 reflects current Class I and Class II product lines and locations.

The organization chart on page 7 illustrates CI's management structure. As of June 2004, CI had 217 employees. Of these employees, 211 were paid from the revolving fund and six were paid from appropriated funds. Staff jobs include manufacturing, sales, transportation, administration, accounting, research, marketing, and customer service.

INDUSTRIES LOCATIONS



ORGANIZATIONAL STRUCTURE



OPERATING ENVIRONMENT

Class I:

The Class I work program employed approximately 300 offenders earning comparable wages for similar work performed in the community. During FY04, deductions from Class I wages for the cost of incarceration totaled approximately \$601,000 and contributions to crime victims exceeded \$150,000.

On May 13, 2004, The Washington State Supreme Court reversed its decision and ruled that the Class I work program violates the Washington State Constitution. The defendants in the lawsuit, the Department of Corrections, and a Class I private partner filed motions for reconsideration.

On August 19, 2004, the Supreme Court of Washington issued an order denying the Department of Correction's and MicroJet's Motions for Reconsideration in the case of Washington Water Jet Workers Association, et al v Howard Yarbrough et al. The Supreme Court's opinion issued May 13, 2004, which found the Class I program violated the Washington Constitution, Article II, section 29, is final.

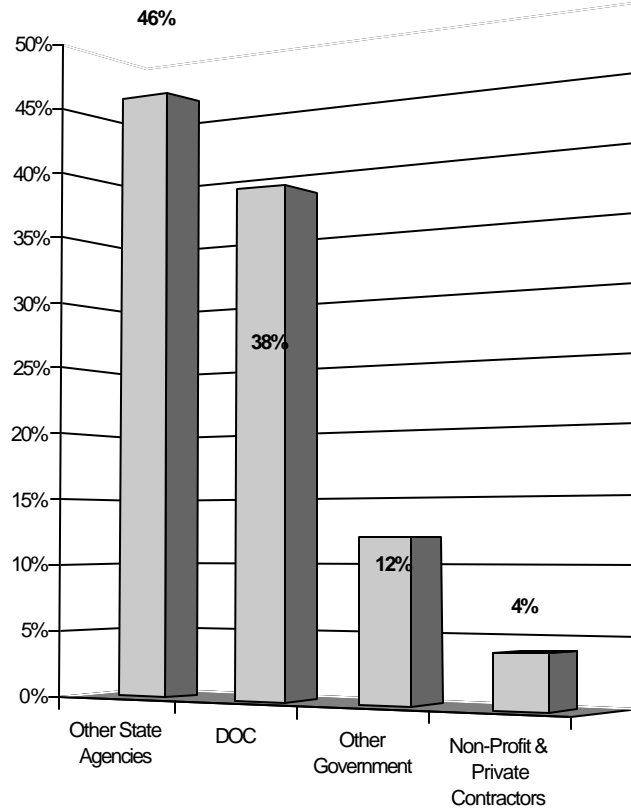
Class II Operations:

According to RCW 72.09.100, Class II goods and services may be sold to public agencies and nonprofit organizations and to private contractors when the goods purchased will be ultimately used by a public agency or a nonprofit organization. Within this limited market, CI competes for orders with other vendors.

This state-owned Class II business provides jobs to more than 1,400 offenders. Partnerships have been developed with General Administration and other state agencies to produce quality goods and services at a competitive price that are delivered on time. Class II strives to develop partnerships in the labor and business communities. Class II continues to purchase raw materials required in its manufacturing operations from privately owned and operated Washington businesses.

OPERATING ENVIRONMENT

CLASS II SALES BY CUSTOMER GROUP FY 04



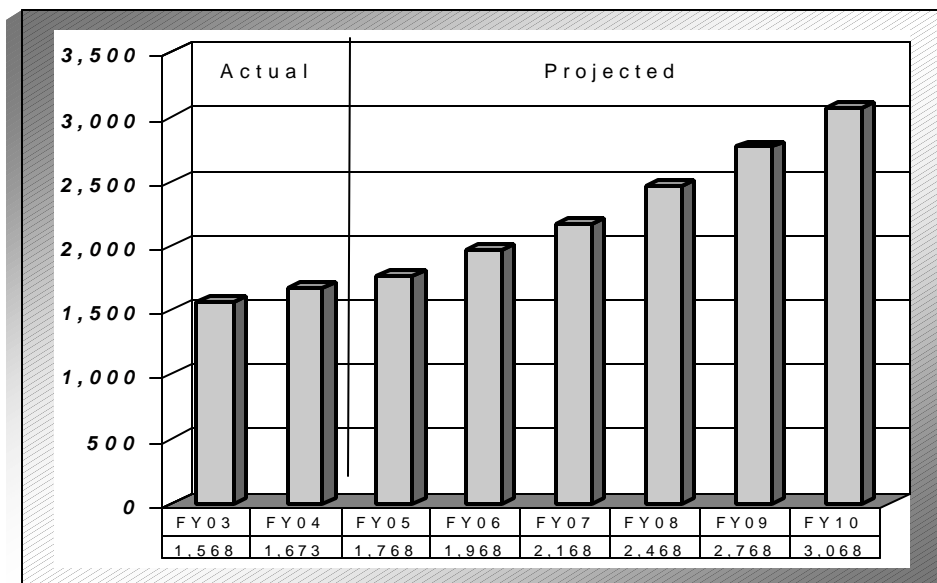
Source: Correctional Industries Accounting Department

OPERATING ENVIRONMENT

Key Operating Factors:

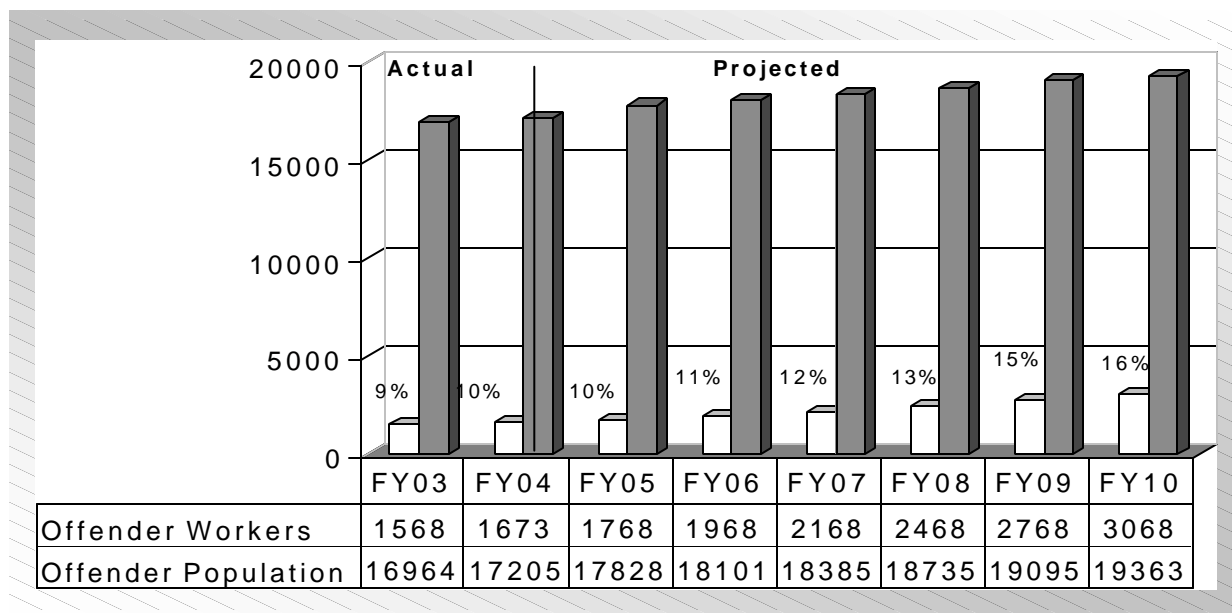
2SSB 6489 established offender job targets for CI to create 1,500 additional Class I and Class II jobs by June 2010. However, the August 19, 2004 decision rendered by the Supreme Court of Washington would shift this increase in offender employment entirely to Class II.

Actual offender workers 2003 & 2004; 2SSB 6489 offender job targets for 2005-2010



Source: Correctional Industries offender payroll system.

Percentage of SB 6489 offender job targets 2003 – 2010 to total population



Source: 2005 – 2015 Statewide Master Plan Section 2-12 and Correctional Industries offender payroll system.

OPERATING ENVIRONMENT

Inmate Population

The following table shows the percentage increase in offender jobs per 2SSB 6489 and the forecasted offender population in Washington State penal institutions:

2SSB 6489 TARGETS & TOTAL DOC POPULATION FORECASTS

Fiscal Year	Targets	Percentage Increase	Population Forecast	Percentage Increase
FY 2003	1,568	0.0%	16,964	0.0%
FY 2004	1,673	6.7%	17,205	1.4%
FY 2005	1,768	12.8%	17,828	5.1%
FY 2006	1,968	25.5%	18,101	6.7%
FY 2007	2,168	38.3%	18,385	8.4%
FY 2008	2,468	57.4%	18,735	10.4%
FY 2009	2,768	76.5%	19,095	12.6%
FY 2010	3,068	95.7%	19,363	14.1%

Source: 2005-2015 Statewide Master Plan and the Correctional Industries offender payroll system.

Total offender jobs would increase 95.7% in fiscal year 2010 from the base number of jobs on June 30, 2003. Over the same period, offender populations are forecast to increase 14.1%. Correctional Industries must develop additional offender jobs to reduce idleness and assist the department in the management of offenders.

CI's market visibility has increased.

- Marketing efforts, including web-based orders, personal selling, printed matter, trade shows, and a video presentation have received widespread attention.
- Use of state contracts as an entry point into new markets has proven to be successful.
- The partnership with higher education promises to provide additional offender jobs that will benefit all stakeholders.

OPERATING ENVIRONMENT

Potential strategies to replace the loss of 300 * Class I jobs by expanding Class II programs include:

Expansion/ New Shops Fiscal Year 2005

	Shop	Potential New Offender Jobs
1	Expand Laundry Operations	103
2.	Expand Food Packaging	15
3.	Expand Optical	8
4.	Expand Bakery Operations	65
5.	Expand Welding	12
6.	Expand Pheasant Farm	9
7.	Expand Signage	5
8.	Expand Print Shop	15
	Potential Increase	232

Expansion/New Shops Fiscal Year 2006

1.	Expand Food Factory	Airway Heights Corrections Center
2.	Expand Furniture Shop	McNeil Island Corrections Center
3.	Sales Showroom	Tumwater
4.	Expand Optical Lab	Airway Heights Corrections Center
5.	Office/Warehouse Complex	Tumwater
6.	Expand Recycling & Composting	Monroe Correctional Complex & Stafford Creek Corrections Center
7.	Auto Body Shop	Cedar Creek Corrections Center
8.	Expand Portion Pac	Coyote Ridge Corrections Center
9.	Riparian Plant Production	Monroe Correctional Complex

* Specifically, the Monroe Correctional Complex will lose 181 offender jobs with the closure of all Class I programs. Correctional Industries is investigating the following alternatives to replace 55 of the lost Class I jobs at MCC in FY05:

- Bakery Operations – 15 jobs
- Expand Laundry – 20 jobs
- Develop Product Fulfillment Center – 20 jobs

In the long term, CI is researching the possibility of constructing a second food factory, which at it's peak, will employ 180 Class II offenders.

Sales of Correctional Industries goods and services drive jobs for offenders. The program must be ready to react to the market and provide new products to customers based market demands.

OPERATING ENVIRONMENT

2SSB 6489 Offender Job Targets

Class II programs forecast an increase of 200 offender jobs in Fiscal Year 2005 above the June 30, 2003 base of 1,289 Class II to meet the 2SSB 6489 job targets.

Site	Baseline June 30, 2003	Fiscal Year 2005 Job Targets	Increase in Jobs
AHCC	318	384	66
AVCC	9	12	3
CBCC	82	80	-2
CRCC	32	41	9
CCCC	13	23	10
TPR	23	24	1
MCC	77	70	-7
MICC	272	277	5
SCCC	42	109	67
WCC	44	44	0
WCCW	57	81	24
WSP	320	344	24
TOTALS	1,289	1,489	200

The increase in offender jobs is the result of investments made during prior years and the continued demand for CI products and services.

Changing customer expectations and needs present challenges and opportunities

- Customers expect ergonomically correct workstations and equipment.
- CI must continue to improve technical capabilities and expertise.
- Rapid changes in the market present opportunities in emerging markets.
- Demand for environmental and recycling-related services continues to grow.
- CI must include external stakeholders in marketing plans and new product development.

OPERATIONS ANALYSIS

Class II Growth Strategies

Expanding offender jobs requires sustained sales growth. Growth will include higher education markets and enhanced on-line ordering. CI is working to make ordering easier and has assigned account executives to service specific agencies. CI's ability to identify and increase market penetration only into governmental and nonprofit markets is a limiting factor for achieving offender worker goals. Increased marketing efforts to out-of-state business are being developed. Joint ventures with other state's correctional industry programs are also underway. The marketing and sales effort must be supported by a manufacturing process that is customer service driven.

CI will continue to develop pre-apprenticeship programs with organized labor in the area of furniture manufacturing, design services, asbestos abatement, and food service. Pre-apprenticeship programs allow an offender to develop skills and the potential to secure a job supported in part by organized labor.

Correctional Industries is a market-driven organization, producing what the market demands. To remain viable CI must continue to improve customer service capabilities. This includes plant development, infrastructure, equipment purchases, on-time delivery, training of offenders and Department staff, and a significant investment in finished goods inventory.

MARKET ANALYSIS

Out-of-state Contracts

Correctional Industries and the Office of State Procurement have developed a memo of understanding to work cooperatively in reviewing expiring state contracts held by out-of-state suppliers for products and services that can be provided by CI. Upon expiration, these contracts may be assumed by Correctional Industries pursuant to RCW 43.19.534. This provision allows CI to expand its market, offer offenders training and skills, and meet customer expectations for the delivery of goods and services with little to no impact on Washington State labor and business.

Correctional Industries strategies include the following:

- Assume state contracts identified through new product development process with General Administration upon expiration.
- Expand sales efforts of food products to cities and counties.
- Expand sales effort of dormitory furnishings to higher education institutions.
- Continue to supply component parts to other state's correctional Industries.

Increase Market Penetration within the Department of Corrections

Sales to the Department of Corrections in Fiscal Year 2004 represented approximately 38% of all revenues. This is a \$6.1 million increase since Fiscal Year 2002, selling \$14.5 million in Fiscal Year 2004 compared to \$8.4 million in Fiscal Year 2002. Several factors make increased sales to the Department a viable option for CI.

- Offender job increases have minimal impact on private sector businesses.
- Lower costs of goods and services to the Department save money.
- Expanded programs in technical areas such as environmental services and maintenance build transferable skills for post-release employment opportunities.
- Orders from within the department provide increased work opportunities for offenders and reduce idleness at the institutions.
- CI provides consumable and durable goods for capacity expansion at existing facilities.

CI will work closely with the Department of Corrections as a whole to maximize existing business opportunities.

MARKET ANALYSIS

Maintain Market Share in Current Product Lines

- Focus on customer service with the goal of generating repeat business
- Use statewide furniture contract as a marketing tool to gain entry for other goods and services offered by CI
- Develop new higher education accounts (colleges and universities)
- Penetrate K-12 markets and target smaller school districts

Conduct Full Market Research for New Product Development

Product decisions are based on extensive market research, customer requirements, offender jobs potential, and impact on business and labor. Product teams representing CI's manufacturing, service, transportation, accounting, marketing, and sales review each proposal before implementation. Activities include:

- Working with existing customers to identify new product opportunities.
- Utilizing product development teams to identify and assess the feasibility of new products and services.
- Partnering with Office of State Procurement in the development of new product ideas.

Additional product lines must be identified in order to expand sales and increase offender jobs that keep pace with growth in the offender population. The business development and research unit will continue to utilize suggestions from all sources and work independently to research potential product opportunities.

FACILITIES-EQUIPMENT-CAPITAL PLAN

Maintaining Employment and Equipment:

Cost estimates for maintaining the existing job base include an investment to replace obsolete equipment. New equipment is required to produce the highest quality product possible in existing shops. Cost effectiveness of actual expenditures for individual pieces of equipment will be verified through a capital acquisition cost/benefit model.

Expanding Employment - Start-Up Costs

Direct start-up costs include front-end research to identify viable expansion opportunities and initial operating expenses that must be covered prior to sales income being received. Key start-up cost elements include:

- Feasibility studies and planning
- Production staff start-up costs
- Initial raw materials and packaging
- Durable goods inventory (equipment)
- Worker training
- Equipment and installation
- Additional construction costs such as taxes, permits, and management fees

On average, CI utilizes 300 square feet per offender job. Space use must consider manufacturing, office, and warehousing needs. Additional expansion and infrastructure upgrades are required to create and expand Class II programs. Capital construction is planned for major facilities where offenders must be employed within the secure perimeter.

Institution	Square Footage
Airway Heights Corrections Center	31,000
Pine Lodge Correctional Center for Women	1,500
Monroe Correctional Complex, (Infrastructure)	12,000
Washington State Penitentiary	12,000
Tumwater Office/Warehouse Complex	47,000

PERFORMANCE EVALUATION

Operations Analysis - Supplies/Materials/Profit Projections

See Performance Measures below.

Product Unit Costs and Management Evaluation

All costs associated with the production of goods and the delivery of services are tracked on a monthly basis. Complete financial information is prepared monthly and includes current month, year-to-date, and actual-to-forecast reviews.

Direct costs of production are tracked using a Manufacturing Resource Planning System (MRP) for inventory tracking and valuation. The bill of materials for a finished good includes all purchased/manufactured material costs and the offender labor necessary to produce the product. For product pricing decisions, transportation costs are included at the product level.

Individual shop performance evaluations are based on forecast-to-budget reviews of direct cost factors and overall employment goals. Elements include:

- Sales
- Contribution margin at shop level
- Cost of goods sold as a percent of sales
- Offender employment levels compared with current goals
- Quality assurance

Performance evaluations for administrators managing multiple sites consider the direct cost factors listed above and control of overhead expenses.

Senior managers are accountable for the overall cost of business and profit-and-loss elements reflected in operating statements. Budgets are built on cost as a percentage of sales figures. Offender job growth goals are set by legislation.

Performance Measures for the 2005-2007 biennium:

1. Expand offender work opportunities by adding offender jobs per 2SSB 6489.

FY05	200 additional jobs
FY06	200 additional jobs
FY07	200 additional jobs
FY08	300 additional jobs
FY09	300 additional jobs
FY10	300 additional jobs

PERFORMANCE EVALUATION

2. Preserve and expand current market and offender jobs as demonstrated by meeting base sales targets.

FY00 Class II Sales	\$34,137,490
FY01 Class II Sales	\$34,578,653
FY02 Class II Sales	\$34,770,349
FY03 Class II Sales	\$38,218,606
FY04 Class II Sales	\$39,916,145

Projected

FY05 Class II Sales	\$41,643,554
FY06 Class II Sales	\$46,534,766

3. Maintain a breakeven or small profit position during the next two fiscal years

Program Accomplishments

- Met legislative required Class I and Class II offender employment growth goals in fiscal years 1995 through 2000.
- Increased sales and operating income:

	Sales	Operating Income (Loss)	Net Income (Loss)*
FY00	\$34,137,490	\$656,890	\$4,182,945
FY01	\$34,578,653	\$19,198	\$5,572,834
FY02	\$34,770,349	\$198,136	\$1,943,136
FY03	\$38,218,606	\$33,864	\$1,206,320
FY04	\$39,843,292	(\$976,264)	\$1,433,781**

* These figures include legislative appropriations and cost of incarceration funds received.

** FY04 Results of operations reported as of August 27, 2004, prior to the completion of CAFRS.

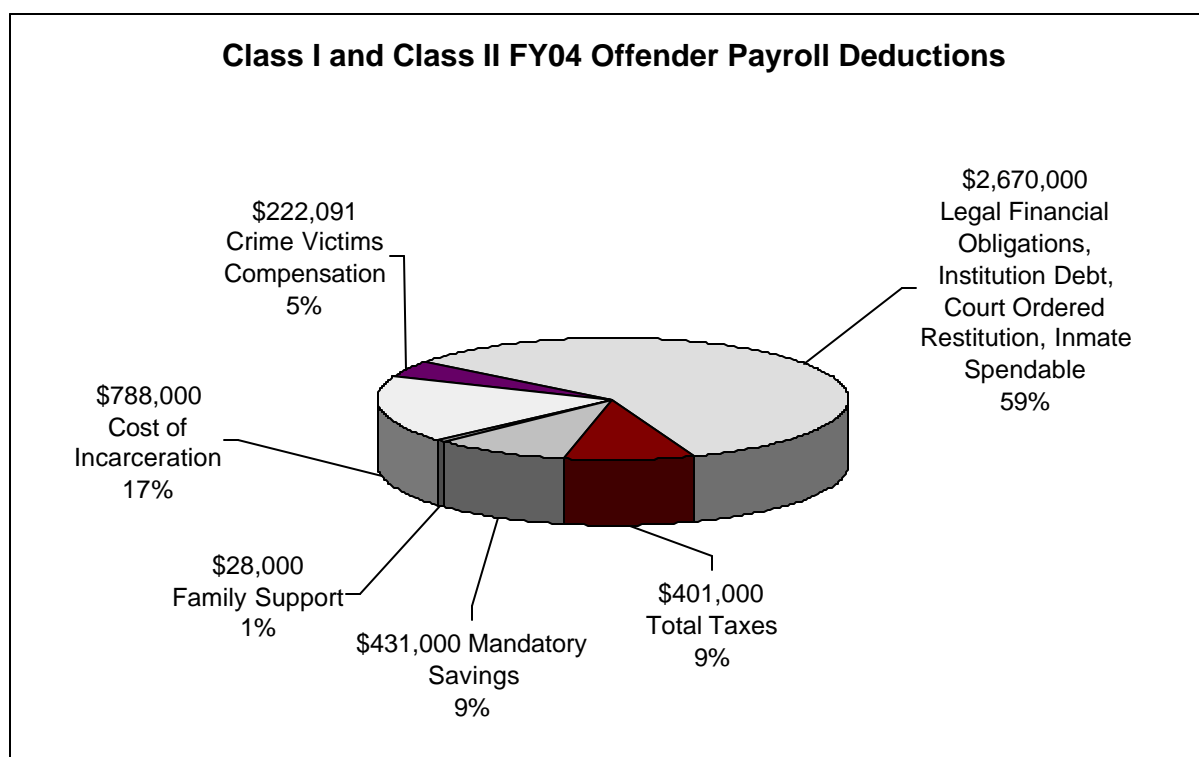
PERFORMANCE EVALUATION

- Offenders working in the Class I and Class II programs wages are distributed towards the cost of incarceration, offender debts, and for savings upon release:

Fiscal Year 2004 gross offender wages/gratuities: \$4,540,270

Fiscal Year 2004 deductions included:

- Federal and State payroll taxes
- Cost of incarceration
- Crime victims' compensation
- Mandatory savings
- Family support (Class I)
- Legal financial obligations
- Debt repayment
- Court Ordered Restitution



The loss of Class I operations will decrease the amount of funding from offender payroll:

- Crime Victims Compensation Funding will decrease by about \$150,000 per year.
- Cost of Incarceration Funding will decrease by about \$601,000 per year.
- Payments of legal financial obligations, court-ordered restitution, institution debt, and family support payments will decrease by about \$391,000 per year.

PERFORMANCE EVALUATION

CI FINANCIAL STATEMENTS AND SUMMARY PERFORMANCE DATA

Statement of Revenue and Expenses For Fiscal Years 2002 – 2006

	ACTUAL				PROJECTED					
	2002	% of Sales	2003	% of Sales	2004	% of Sales	2005	% of Sales	2006	% of Sales
Sales, External	\$31,584,834	90.8%	\$34,435,304	90.1%	\$36,423,234	91.2%	\$38,305,653	92.0%	\$43,103,865	92.6%
Sale Discounts	-\$193,877	-0.6%	-\$168,583	-0.4%	-\$102,959	-0.3%	(\$142,246)	-0.3%	(\$142,246)	-0.3%
Sales, Internal	\$3,379,392	9.7%	\$3,951,885	10.3%	\$3,595,869	9.0%	\$3,480,148	8.4%	\$3,576,148	7.7%
Total Sales	\$34,770,349	100.0%	\$38,218,606	100.0%	\$39,916,144	100.0%	\$41,643,554	100.0%	\$46,537,766	100.0%
Cost of Goods Sold	\$21,013,109	60.4%	\$22,301,103	58.4%	\$23,777,176	59.6%	\$24,677,005	59.3%	\$28,523,849	61.3%
Gross Margin	\$13,757,240	39.6%	\$15,917,503	41.6%	\$16,138,968	40.4%	\$16,966,550	40.7%	\$18,013,918	38.7%
Operating Expenses	\$13,559,104	39.0%	\$15,883,639	41.6%	\$17,089,248	42.8%	\$18,339,717	44.0%	\$18,852,117	40.5%
Net Income from Operations	\$198,136	0.6%	\$33,864	0.1%	(\$950,280)	-2.4%	(\$1,373,167)	-3.3%	(\$838,200)	-1.8%
Net Income	\$1,943,136	5.6%	\$1,206,320	3.2%	\$1,420,228	3.6%	\$368,444	0.9%	\$853,807	1.8%

Notes:

1) Revenue and Forecasts are based upon the following assumptions:

FY05 Revenue Securing of an additional \$2,000,000 of sales to Washington State colleges and universities

FY06 Revenue a) Securing of an additional \$2,000,000 of sales to Washington State colleges and universities

b) Full implementation of digital license plates technology

c) Partial expansion of Food Factory capacity

2) Cost of Goods Sold Includes: Raw Materials Used, Direct Inmate Payroll, Direct Consumable Materials, and Freight In

3) Operating Expenses Include: Civilian Salaries, Transportation, Depreciation, Equipment and Vehicle Maintenance, Rentals & Leases, Indirect Inmate Labor, Warranty, Supplies, Tools & Equipment, Travel, Training, Purchased Services, and Marketing

4) Net Income includes the receipt of Cost of Incarceration Funds.

PERFORMANCE EVALUATION

CI Financial Statements and Summary of Performance Data

Statement of Changes in Cash Position For Fiscal Years 2001-2005

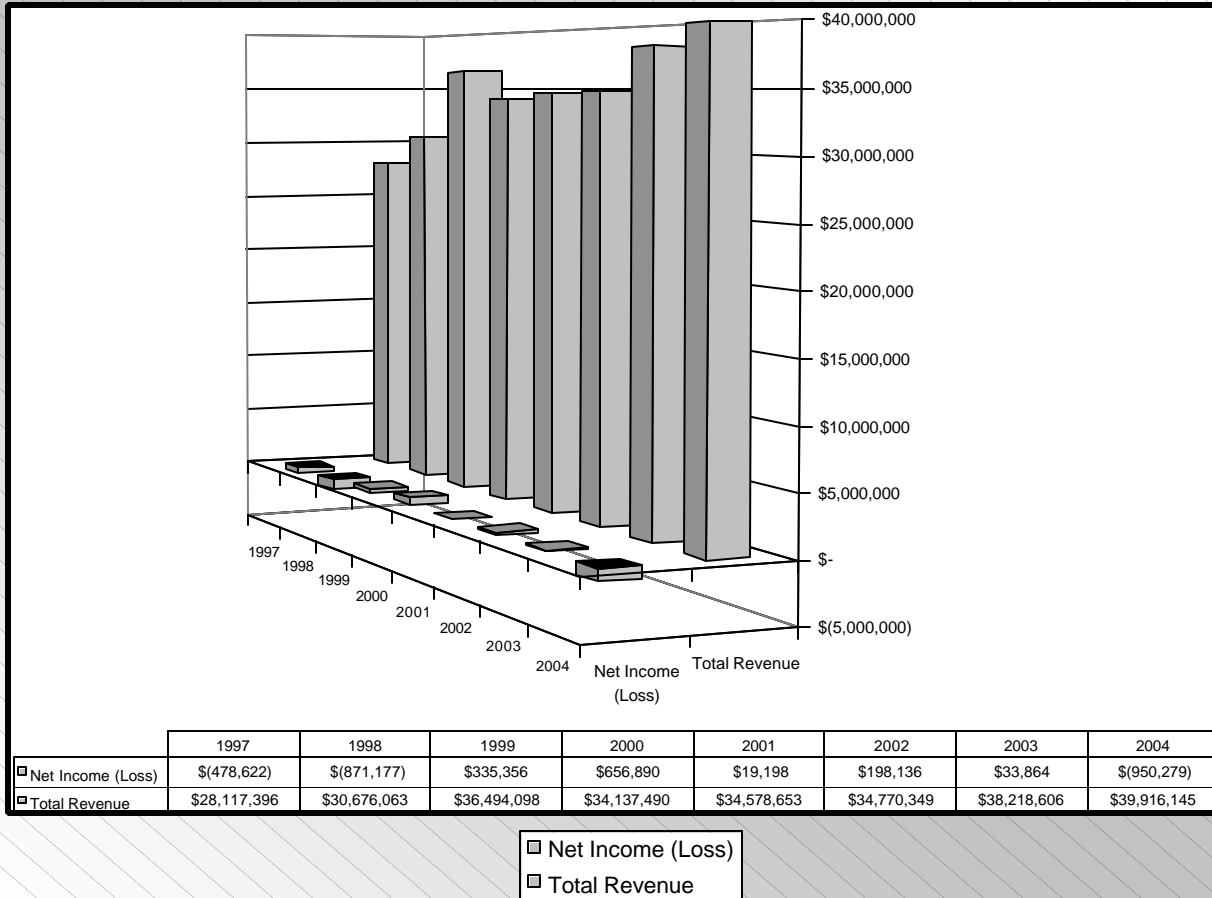
	ACTUAL			PROJECTED	
	2002	2003	2004	2005	2006
Beginning Cash	\$11,967,083	\$14,379,322	\$13,342,860	\$14,316,171	\$9,741,654
Plus: Cash Received	\$37,787,441	\$38,141,562	\$42,931,760	\$43,671,015	\$47,674,702
Less: Purchases	\$19,473,652	\$20,600,856	\$22,037,327	\$22,847,109	\$26,641,404
Direct Inmate Labor	\$1,539,456	\$1,700,247	\$1,766,484	\$1,829,896	\$1,882,445
Operating Expenses	\$15,510,835	\$18,160,683	\$19,429,326	\$24,882,273	\$21,125,936
Add Back: Depreciation	\$1,148,741	\$1,283,762	\$1,274,688	\$1,313,746	\$1,313,746
Ending Cash	\$14,379,322	\$13,342,860	\$14,316,171	\$9,741,654	\$9,080,317

Notes:

- 1) Cash received includes sales of goods and services and Cost of Incarceration Revenues
- 2) Purchases include Raw materials, Direct Consumable Supplies and Freight In
- 3) Operating Expenses Include: Civilian Salaries, Transportation, Depreciation, Equipment and Vehicle Maintenance, Rentals & Leases, Indirect Inmate Labor, Warranty, Supplies, Tools & Equipment, Travel, Training, Purchased Services, and Marketing

PERFORMANCE EVALUATION

CLASS II INDUSTRIES EIGHT YEARS OPERATING INCOME/LOSS/SALES



Does not include Legislative Appropriations or Cost of Incarceration Funds.